

Faculty Working Papers

**THE MACROECONOMICS OF A
WAGE EARNERS' INVESTMENT FUND**

Hans Brems

#198

**College of Commerce and Business Administration
University of Illinois at Urbana-Champaign**

FACULTY WORKING PAPERS

College of Commerce and Business Administration

University of Illinois at Urbana-Champaign

August 16, 1974

THE MACROECONOMICS OF A
WAGE EARNERS' INVESTMENT FUND


Hans Brems

#198

H. BREMS, "THE MACROECONOMICS OF A WAGE EARNERS' INVESTMENT FUND"

100-Word Summary

A third of a century after Keynes' perception of it, the idea of a wage earners' investment fund is re-emerging in Western Europe. The article examines macroeconomic effects of a wage earners' investment fund financed alternatively by an investment wage and by profit sharing: The fund will reduce the national disposable-income fraction of national output and redistribute disposable income in labor's favor—the investment wage less so than profit sharing. The fund may raise the propensity to save national output but narrow the opportunity for self-financing, hence induce firms to substitute less risky for more risky investment projects.



Digitized by the Internet Archive
in 2012 with funding from
University of Illinois Urbana-Champaign

HANS BREMS
Box 99 Commerce West
University of Illinois
Urbana, Illinois 61801
U. S. A.

August 15, 1974

T H E M A C R O E C O N O M I C S O F A W A G E
E A R N E R S ' I N V E S T M E N T F U N D

I. I N T R O D U C T I O N

1. The Concept

A third of a century after Keynes' [14] perception of it, the idea of a wage earners' investment fund is re-emerging in Western Europe. Serving the dual purpose of giving labor a share of, first, the capital gains accruing to stockholders in an inflation-

ary economy and second, the co-determination rights inherent in stock ownership, a wage earners' investment fund would work as follows. Primarily in the form of corporate stock employers would contribute compulsorily a fraction of either their wage bill or their profits bill to the fund. Let us call the former contribution an investment wage, the latter profit sharing. The fund would belong to the employees and would issue nonnegotiable fund certificates to them. A specified number of years after its issue a fund certificate would become redeemable in cash at a price which would include the share of that certificate in the original contribution to the fund and all capital gains and dividends made on that contribution during the lifetime of the certificate. The fund would be allowed to sell contributed corporate stock at any time and buy other stock.

The mechanism of such fund generation, and the macroecon-

omic effects of it, is a largely unmet¹ challenge to economic theory. The purpose of the present article is to explore the grounds and offer tentative suggestions. A careful distinction between the investment wage and profit sharing will be maintained, and significant differences in effects will be found. Mathematics will be used sparingly and merely as an aid in formulating concepts. For an operational use of mathematics as a tool to specify and solve a self-contained model of a wage earners' investment fund, the reader is referred to [5] and [6].

2. The Plans

A compulsory investment wage was first² proposed by Keynes [14] in 1940. With the purpose of paring down consumer demand to wartime output of consumers' goods, Keynes proposed a "deferred-pay" scheme calling for £550 million in annual com-

pulsory saving. The complete scheme, including "the accumulation of working-class wealth under working-class control," would embody, Keynes said in his preface, "an advance towards economic equality greater than any which we have made in recent times." Keynes' proposal was adopted strictly as a wartime measure and to less than a quarter of his suggested sum, Maital [17], 166.

Compulsory profit sharing was first proposed by Gleitze [12] in 1957. Employers should never be deprived of the use of capital, he said. Hence, in the form of corporate stock or bonds rather than in the form of cash, employers should contribute compulsorily a fraction of their profits bill to the fund. Later German labor thinking, beginning with Büttner [7], moved away from contributions in the form of bonds: If free to choose, a firm whose internal rate of return were greater than the bond rate would choose to contribute bonds; a firm whose internal

rate of return were less than the bond rate would choose to contribute stock. Thus the fund would find its portfolio composed of first-rate bonds but second-rate stock. Moreover, one of the purposes of a wage earners' investment fund was to give labor a share of the capital gains accruing to firms under inflation, and none are made on bonds.

According to Gleitze, the fund should issue nonnegotiable fund certificates to all employees. At invalidity, retirement, or a specified number of years after its issue a fund certificate should become redeemable in cash. In 1961 the Gleitze Plan was endorsed by Deutscher Gewerkschaftsbund (German federation of labor unions) [9] but only after two significant modifications, i. e., first, that contributions should be in the form of stock, not bonds, second, that fund certificates should be redeemable at any time.

3. The Bills

In 1973 a bill proposing a compulsory investment wage failed to pass in the Danish parliament. The bill, Arbejdsministeriet [1] was a modified union proposal, Landsorganisationen [16]. Both proposed a contribution fraction of 5%. The bill proposed a redemption period of seven years, whereas the union proposal had proposed a five-year redemption period.

In 1974 the German coalition government published the principles [10] of a bill proposing compulsory profit sharing. Contributions were to be in the form of corporate stock or, subject to a penalty, cash. Smaller firms were exempt. The contribution fraction was to be progressive, reaching a maximum of 10%. Reversing Büttner and going back to Gleitze, the coalition government proposed a seven-year redemption period. An actual bill was not put before parliament, and the matter

was declared to be a dormant one by the subsequent Schmidt cabinet.

4. The Statutes

A voluntary investment-wage scheme was enacted by the Federal Republic of Germany in 1961 [20], 111-136. The scheme was revised twice and is now so appealing that a majority of German wage earners is participating. Contributions may take the form of stock, bonds, or cash as agreed, may be agreed upon within a maximum of 624 DM per annum, and are generously supplemented by government cash subsidies. The redemption period is seven years.

A compulsory profit-sharing scheme for larger corporations was enacted by France in 1967 [20], 79-80 and 92-95. Contributions may take the form of stock, bonds, or cash as agreed and entitle the firm to an equivalent tax relief. The redemption

period is five years.

II. NOTATION

1. Variables

- Φ \equiv size of wage earners' investment fund
- g_v \equiv proportionate rate of growth of variable $v \equiv P, W, \text{ or } Z$
- i \equiv internal rate of return
- κ \equiv physical marginal productivity of capital stock
- P \equiv price of good
- S \equiv physical capital stock
- W \equiv wage bill including employers' contribution to fund per year
- X \equiv physical output

$Y \equiv$ disposable money income

$Z \equiv$ profits bill including employers' contribution to fund per year

2. Parameters

$a \equiv$ employers' contribution to fund as a fraction of wage bill

$\alpha, \beta \equiv$ exponents of Cobb-Douglas production function

$b \equiv$ employers' contribution to fund as a fraction of profits bill

$e \equiv$ Euler's number, the base of natural logarithms

$\rho \equiv$ redemption period

$w \equiv$ money wage rate including employers' contribution to fund per man year

Time coordinates are t and τ .

III. THE GENERATION OF THE FUND

In the form of corporate stock let all employers contribute compulsorily either the fraction a of their wage bill W or the fraction b of their profits bill Z to a wage earners' investment fund. The fund will be growing for two reasons. First, what is being put into it is growing: The wage bill or the profits bill themselves are growing at the proportionate rates g_W and g_Z , respectively. Second, once put in, the contributions will be put to good use and earn a return. Assume wage earners to have the same motivation and skill as capitalist-entrepreneurs hence, like the latter, to be making the internal rate of return i on the money value of the capital stock they own, i. e., the wage earners' investment fund. Let the earnings of the fund be

compounded continuously, and let all wage earners present their fund certificates for redemption as soon as the latter become redeemable. Redemption at time τ is the accumulated value at time τ of the contribution made at time $\tau - \rho$, where ρ is the redemption period. The size of the fund at time τ is the accumulated value at time τ of all contributions made from $t = \tau - \rho$ to $t = \tau$. Under steady-state growth that accumulated value may be expressed in terms of the wage or profits bill at time τ , respectively:

$$(1a) \quad \Phi(\tau) = \int_{\tau - \rho}^{\tau} e^{(i - g_W)(\tau - t)} aW(t) dt$$

$$(1b) \quad \Phi(\tau) = \int_{\tau - \rho}^{\tau} e^{(i - g_Z)(\tau - t)} bZ(t) dt$$

IV. THE GENERATION OF DISPOSABLE INCOME

1. Wage Earners

All wage earners were assumed to present their fund certificates for redemption as soon as the latter become redeemable. Redemption at time τ is the accumulated value at time τ of the contribution made at time $\tau - \rho$, where ρ is the redemption period. Under an investment wage define labor's disposable income at time τ as the wage bill minus contribution plus redemption at that time:

$$(2a) \quad Y_1(\tau) \equiv W(\tau) - aW(\tau) + e^{(1 - g_w)\rho} aW(\tau)$$

Under profit sharing define it as merely the wage bill

plus redemption at that time:

$$(2b) \quad Y_1(\tau) \equiv W(\tau) + e^{(1 - g_Z)\rho} bZ(\tau)$$

2. Capitalist-Entrepreneurs

The capitalist-entrepreneurs are making the internal rate of return i on the money value of the capital stock they own, i. e., all capital stock minus the wage earners' investment fund. In a neoclassical one-good world of immortal capital stock, the internal rate of return i includes profits made at the rate of the physical marginal productivity of capital κ plus capital gains made at the rate of inflation g_p :

$$(3) \quad i \equiv \kappa + g_p$$

Let us follow convention and exclude capital gains from

the disposable income of capitalist-entrepreneurs. Under an investment wage their disposable income is, then, their profits on all capital stock minus the fund:

$$(4a) \quad Y_2 \equiv \kappa(PS - \Phi)$$

Under profit sharing their disposable income is their profits on all capital stock minus the fund minus their contribution to the fund:

$$(4b) \quad Y_2 \equiv \kappa(PS - \Phi) - bZ$$

3. Two Biases

The definitions of disposable income just adopted have two biases built into them, both understating labor's thriftiness.

The first bias is the assumption that all wage earners present their fund certificates for redemption as soon as the latter become redeemable. Will they? Evidence to the effect that they will not is available from fairly long German experience with voluntary schemes but is not necessarily indicative of behavior under compulsory ones, Robinson [20], 126-127. A hint of impatience may, perhaps, be found in union attitudes to the length of the redemption period under proposed compulsory schemes. A redemption period of zero assured union endorsement of the Gleitze Plan in 1961, but a redemption period of seven years assured agreement within the German coalition government in 1974. A redemption period of five years was proposed by Danish unions but was lengthened to seven years in the Danish bill of 1973.

Keynes would have questioned the assumption that all wage earners present their fund certificates for redemption as soon

as the latter become redeemable:

The argument is, I suppose, that savings deferred in this way are more likely than normal savings to be spent by their owners as soon as they are free to do so. How far this will prove to be true in fact, I am not sure. It may be that the blocked deposits will be instrumental in spreading the habit of small savings more widely... [14], 47.

The second bias is that while capital gains were excluded from the disposable income of capitalist-entrepreneurs——an exclusion well anchored in convention³——the redemption of a fund certificate included the share of that certificate in the original contribution to the fund and all capital gains and dividends made on that contribution during the lifetime of the certificate. Redemption thus defined was a component part of labor's disposable income. Maybe such inclusion can be justified by the fund's indirectness and remoteness. But maybe the inclusion of the

original contribution and the capital gains made on it does overstate disposable labor income as conceived by labor itself.

Both biases represent extremes: Wage earners can redeem after but never before the expiration of the redemption period. Of the original contribution and the capital gains made on it, wage earners could consider as disposable income less but never more than 100 per cent. Both biases, then, are bound to understate the thriftiness of wage earners. The wage earner might well be more reluctant to redeem and more reluctant to spend what is redeemed.

How reluctant could well depend upon the particular design of the wage earners' investment fund. A large centralized fund like the Danish proposed one [1] might appear remote and indirect to the wage earner. Unable to identify with it, he might treat its disbursements as he would any other transfer income. By contrast , the German proposal [10] visualized a

number of funds among which the wage earner could choose freely. Such freedom of choice would make the fund look less remote and more trustworthy to the wage earner, hence would make him more reluctant to redeem and more reluctant to spend what is redeemed.

4. Computer Simulation

The full macroeconomics of a wage earners' investment fund is complicated. One is tempted, therefore, to try to specify and solve simple self-contained mathematical models of it, permitting computer simulation. Incorporating the two biases just mentioned, the writer gave in to that temptation. Two alternative funds were considered, one financed by an investment wage [6], one financed by profit sharing [5]. Both were examined within the framework of a one-good neoclassical steady-state growth model [4], Ch. 5, with immortal capital stock in a Cobb-Douglas production function, assuming a labor exponent of $3/4$, a capital-stock exponent of $1/4$, a propensity to

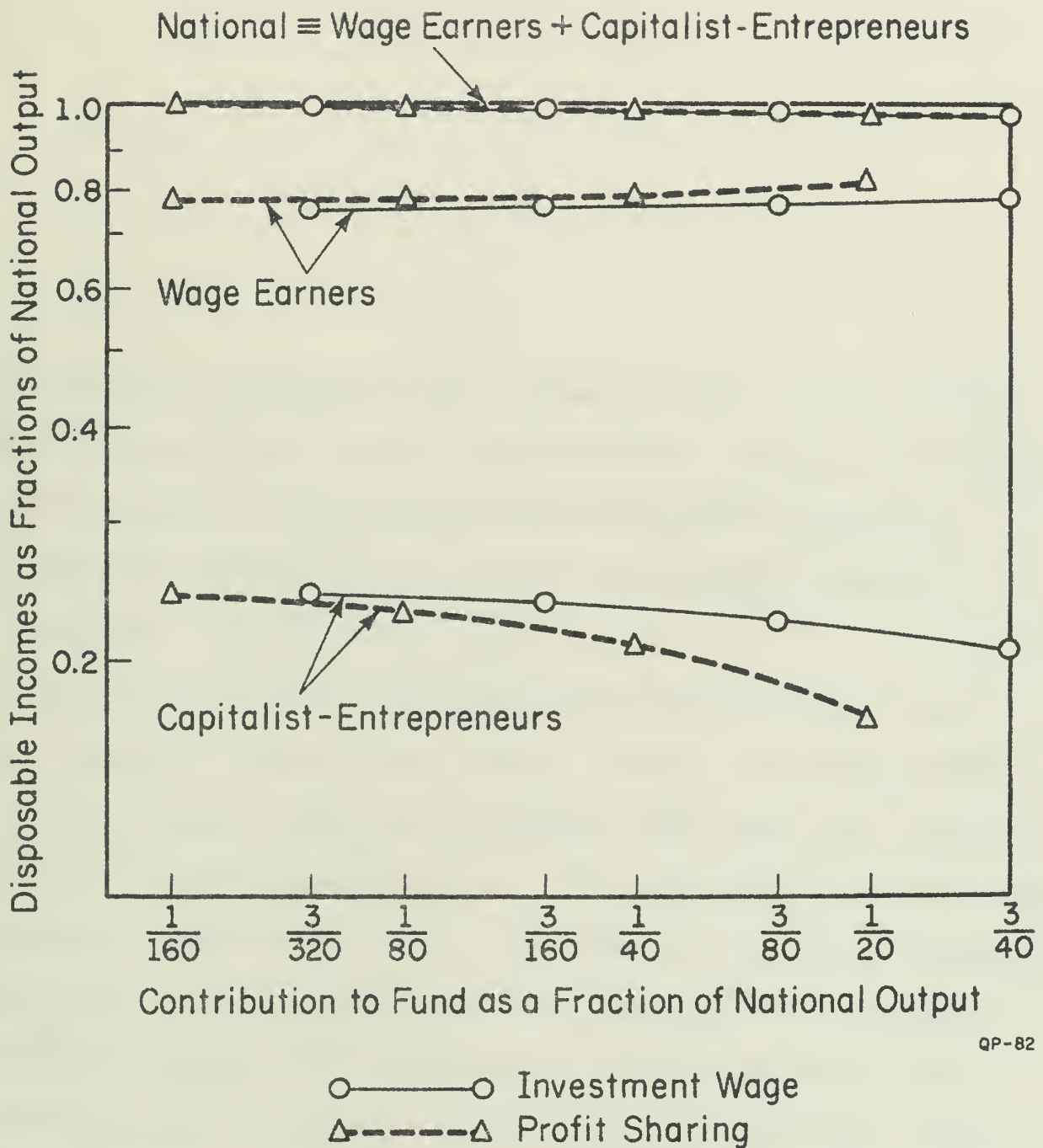


Fig. 1—The Redistribution Effect of an Investment Wage versus that of Profit Sharing.

consume national disposable real income of $7/8$, a zero growth rate of the labor force, and a technological progress of 3% per annum. The effects upon steady-state disposable incomes of a wage earners' investment fund with a redemption period of $\rho = 8$ years are summarized in Figure 1.

Here, the horizontal axis shows the contribution to the fund as a fraction of national output. Under a linearly homogeneous Cobb-Douglas production function with labor and capital exponents of α and β , respectively, the wage bill W is the fraction α and the profits bill Z the fraction β of national output PX . Consequently, an investment wage will contribute the fraction αa and profit sharing the fraction βb of national output PX . The vertical axis of Figure 1 shows national disposable income, labor's disposable income, and the capitalist-entrepreneurs' disposable income, all three as fractions of national output.

Three results stand out in Figure 1. First, an investment

wage and a profit-sharing scheme contributing the same fractions $\alpha a = \beta b$ of national output reduce the national disposable-income fraction of national output identically. Second, both the investment wage and profit sharing redistribute disposable income in labor's favor. But, third, the investment wage has a much weaker redistributive effect than has profit sharing.

5. Shiftability

Why such a difference? To be true, both contributions are collected from the employer. But under full employment the investment wage can be shifted, while profit sharing cannot. The investment wage is a fraction of the wage bill, consequently a man not hired costs no investment wage. Let the money wage rate w be raised by the investment wage. Only if this raises the price of goods P in the same proportion could the real wage rate w/P remain equal to physical marginal productivity of labor at

full employment. But if the investment wage is thus shifted to the price of goods P , how can it redistribute disposable income in labor's favor at all? Well, labor may be paying its own investment wage in the form of a higher price of goods, but labor still earns the internal rate of return on it and capitalist-entrepreneurs do not——cf. the last term of Eq. (2a) and the term $\kappa\phi$ of Eq. (4a).

No shifting could occur under profit sharing. Here, employers maximize $(1 - b)Z$, i. e. profits after contribution but before dividends. And the same employment which maximizes profits Z will maximize the fraction $1 - b$ of it.

V. THE PROPENSITY TO SAVE NATIONAL OUTPUT

1. A Third Bias

As a third bias——this one overstating labor's thriftiness——assume that the propensity to consume disposable real

income is unaffected by the introduction of the wage earners' investment fund and the same for wage earners' and capitalist-entrepreneurs. Since income transferred to a wage earners' investment fund makes that income nondisposable for the duration of the redemption period, national disposable income is now a smaller fraction of national output, and the propensity to save national output is unequivocally up.

The first two biases were understatements, the third one is an overstatement of labor's thriftiness. The extent of the first two is less well known than that of the third. The extent to which the three will cancel is, therefore, unknown. But their net effect may come closer to the truth than that of using the first two plus correct propensities for wage earners and capitalist-entrepreneurs. So the writer put all three biases into his computer simulation [5] and [6], already mentioned. As a result, the introduction of a wage earners' investment fund

with a redemption period of $p = 8$ years would have the following effects upon the steady-state propensity to save national output: An investment wage with a contribution fraction of $a = 1/20$ would raise it from 0.125 to 0.137. Profit sharing with a contribution fraction of $b = 1/10$ would raise it from 0.125 to 0.133.

Since in such simulation an investment wage and a profit-sharing scheme contributing the same fraction $\alpha a = \beta b$ of national output reduced the national disposable-income fraction of national output identically, it did not matter whether the contribution took one form or the other.

2. Different Propensities to Consume Disposable Real Income

But once we try to remove our third bias it may matter. Both an investment wage and profit sharing ultimately redistribute disposable income in favor of the wage earners. But Figure 1 showed that the investment wage had a much weaker redistributive effect

than had profit sharing. Now let the first two biases be inconsequential but the third one be serious: Let wage earners have a substantially higher propensity to consume disposable real income than do capitalist-entrepreneurs. Then redistributing income from the latter to the former may conceivably overwhelm the effect of reducing the national disposable-income fraction of national output, and the net effect may be a fall⁴ in the propensity to save national output. The fall is less likely to result under an investment wage with its weaker redistributive effect than under profit sharing.

We need not trace familiar neoclassical consequences: A higher propensity to save national output would mean higher capital intensity, a higher real wage rate, and a lower physical marginal productivity of capital. Nor do we need to trace familiar fiscal-policy consequences of government cash subsidies or tax relief, offered as inducements to fund formation under German and French statute——cf. Sec. I, 4 above.

VI. THE INDUCEMENT TO INVEST

1. Equity Capital, Borrowed Capital, and Self-Financing

What is the price of capital to the firm? To be marketable, corporate stock must offer a prospect of dividends and capital gain. To the firm, then, offering such a prospect is the price to be paid for equity capital. Interest is the price to be paid for borrowed capital. Neither price has to be paid for self-financing, hence the firm's preference for the latter. The riskier the investment project considered, the stronger the preference.

The fact that equity capital, borrowed capital, and self-financing do not carry the same price tags becomes crucial under a wage earners' investment fund to which firms contribute in the

form of corporate stock. To be true, no cash is contributed, so the cash equivalent of the contribution is still available for financing—in accordance with Gleitze's leading idea. But the contribution has generated new equity. Perhaps it would help to visualize the contribution as follows: The firm would contribute cash to the fund, then issue new stock and sell it to the fund in order to recover the lost cash. The firm ends up with the cash and the fund with stock, as they should, but it has become more transparent that a wage earners' investment fund simply forces the firm to give up some of its self-financing and to resort to equity financing.⁵

2. Does the Fund Insist upon Return Maximization?

But would a wage earners' investment fund really be like any other stockholder unwilling to hold stock not offering a prospect of dividends and capital gain? Is the fund always on the lookout

for high-return stock, always trying to get rid of low-return stock?

First, it may well be. Existing and proposed wage earners' investment funds are entitled to buy and sell securities as they see fit. Indeed, sometimes return maximization is explicitly prescribed. The Danish union proposal, Landsorganisationen [16], Sec. 14, as well as the Danish bill, Arbejdsministeriet [1], Sec. 22, specifically demanded an "active" placement of the fund and defined "active" as guaranteeing, first, a share of the capital gains of the economy and, second, a maximum dividend. Even when not prescribed, return maximization may be likely, especially if a number of competing, decentralized funds were set up among which the individual wage earner would be free to choose—as he would according to the German coalition government proposal [10].

Second, whatever the motivation of the fund may be, the fund

will at least have to sell stock to meet its redemption obligations. Stock originally contributed to the fund will then fall into the hands of ordinary stockholders unwilling to hold it unless it offers a prospect of dividends and capital gain. Should they sell it its market value would suffer, jeopardizing the marketability of future stock issues by the same firm.

We conclude that offering a prospect of dividends and capital gain would indeed be a price to be paid by a firm contributing equity to a wage earners' investment fund. If it is true that the riskier the investment project considered, the stronger is the firm's preference for self-financing, then a wage earners' investment fund will induce the firm to substitute less risky for more risky projects. This could decelerate technological progress.

3. Investment Wage and Profit Sharing Compared

Figure 1 showed that the investment wage had a much weaker

redistributive effect than profit sharing, because unlike profit sharing, the investment wage can be shifted to the price of the product. Such shifting would retrieve some of the lost self-financing. Consequently, the pressure forcing the firm to give up some of its self-financing and resort to equity financing is lower under the investment wage than under profit sharing.

VII. THE GENERATION OF WORKING-CLASS WEALTH

Could a wage earners' investment fund become so large and powerful that it would turn firms into worker-owned Vanek-like [21] or Bergström-like [2] ones? We have already mentioned, in Sec. VI, 2, that return maximization by the fund may be either explicitly prescribed or likely to evolve.

Regardless of the motivation of the fund, however, proposed and enacted wage earners' investment funds are hardly controlling ones. Our Eqs. (1a) and (1b) expressed the size of the fund in terms of the wage or profits bill, respectively. So for empirically plausible contribution fractions and redemption period, our computer simulation [5] and [6] makes it easy to find the steady-state size of the fund as a fraction of capital stock. For a redemption period $\rho = 8$ years an investment wage with a contribution fraction of $a = 1/20$ would generate a fund equalling 0.100 of capital stock. Profit sharing with a contribution fraction of $b = 1/10$ would generate a fund equalling 0.069 of capital stock. Such funds would be large enough to make sizeable dents in the inequality of wealth distribution, but not large enough to establish labor control of industry.

VIII. CONCLUSIONS

This article has examined macroeconomic effects of two forms of a wage earners' investment fund, i. e., one financed by an investment wage, the other by profit sharing. Six tentative conclusions are suggested. First, the fund reduces the national disposable-income fraction of national output. Second, the fund redistributes disposable income in labor's favor. Third, the investment wage has a much weaker redistributive effect than has profit sharing. Fourth, the fund may raise the propensity to save national output. Fifth, by narrowing the firm's opportunity for self-financing the fund may induce it to substitute less risky for more risky investment projects. Sixth, the fund redistributes wealth in labor's favor but, within a practical range, not enough to establish labor control of industry.

R E F E R E N C E S

- [1] Arbejdsministeriet (Ministry of labor), Forslag til lov om lønmodtagernes medejendomsret, Copenhagen 1973.

- [2] Bergström, V., Kapitalbildning och industriell demokrati, Stockholm 1973.

- [3] Bhatia, K. B., "Capital Gains and the Aggregate Consumption Function," Amer. Econ. Rev., Dec. 1972, 62, 866-879.

- [4] Brems, H., Labor, Capital, and Growth, Lexington, Mass., Toronto, London 1973.

- [5] Brems, H., "Profit Sharing and a Wage Earners' Investment Fund under Steady-State Growth," Kyklos, forthcoming.

- [6] Brems, H., "An Investment Wage and a Wage Earners' Investment Fund under Steady-State Growth," forthcoming.
- [7] Büttner, H. W., "Vermögensbildung durch Umverteilung," Gewerkschaftliche Monatshefte, 1961, 264-269.
- [8] Det økonomiske Råd (Council of economic advisers), Økonomisk demokrati i samfundsøkonomisk belysning, Copenhagen 1972.
- [9] Deutscher Gewerkschaftsbund, "Beschluss des Bundesvorstandes des DGB vom 3. 1. 1961," Gewerkschaftliche Monatshefte, 1961, 109-110.
- [10] Federal Republic of Germany, "Grundlinien eines Vermögensbeteiligungsgesetzes," mimeographed, Bonn, January 19, 1974.

- [11] Forsyth, M., Property and Property Distribution Policy, London 1971.
- [12] Gleitze, B., "Lohnpolitik und Vermögensverteilung," Sozialer Fortschritt, 1957, 53-56.
- [13] Jaeger, K., "Sparverhalten und Vermögenspolitik in neoklassischen und generelleren Modellen," Jahrbücher für Nationalökonomie und Statistik, March 1973, 187, 194-208.
- [14] Keynes, J. M., How to Pay for the War, London and New York 1940.
- [15] Krelle, W., J. Schunck, and J. Siebke, Überbetriebliche Ertragsbeteiligung der Arbeitnehmer, Tübingen 1968.

- [16] Landsorganisationen (Danish federation of labor unions),
Økonomisk demokrati, Copenhagen 1971.
- [17] Maital, S., "Inflation, Taxation and Equity: How to Pay
for the War Revisited," Econ. J., March 1972, 82, 158-169.
- [18] Mückl, W. J., "Kapitalbeteiligung der Arbeitnehmer in
einem neoklassischen Wachstumsmodell," Jahrbücher für
Nationalökonomie und Statistik, Dec. 1971, 186, 106-130.
- [19] Ramser, H. J., "Sparverhalten und Vermögenspolitik,"
Zeitschrift für die gesamte Staatswissenschaft, 1972,
128, 269-292.
- [20] Robinson, D., Incomes Policy and Capital Sharing in Europe,
New York 1973.

[21] Vanek, J., The General Theory of Labor-Managed Market Economies, Ithaca, N. Y. and London 1970.

F O O T N O T E S

¹Always assuming a zero redemption period, recent German theoretical work on redistribution of wealth ignores fund generation, hence expects a negative effect on the propensity to save national output, Jaeger [13], Krelle, Schunck, and Siebke [15], 52-86, Mückl [18], and Ramser [19]. Is not redistribution of wealth with a zero redemption period like Hamlet without the prince?

Fund generation was ignored by neither Forsyth [11] nor the Danish Council of Economic Advisers [8]. Forsyth merely expected it to prevent a drop but never mentioned a rise in the propensity to save national output, [11], 66 and 72. The Danish Council did expect fund generation to raise substantially the propensity to save national output, [8], 43, 49. Robinson [20] offered description rather than analysis.

²Continental literature on wage earners' investment funds seems unaware of Keynes' paternity.

³Bhatia [3] found a marginal propensity to consume capital gains of 0.06——highly significant statistically but less than one-tenth of a marginal propensity to consume income of 0.70 to 0.80.

⁴As found by Jaeger [13], Krelle [15], Mückl [18], and Ramser [19] by always assuming a zero redemption period. Their result might well have been reversed by the introduction of a positive redemption period resulting in the accumulation of a wage earners' investment fund.

⁵It is misleading, therefore, to imply that the firm's liquidity is not affected by contribution in the form of corporate stock ——as Gleitze [12] and Bergström [2], 62, do. To be true, Bergström's redemption period is infinite, but his wage earners' investment fund is explicitly a return maximizer.

UNIVERSITY OF ILLINOIS-URBANA



3 0112 060296750